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IRS Outlines EITC Eligibility for 2003 Tax Year

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The IRS wants all eligible taxpayers, but only those who are eligible, to claim the Earned Income Tax Credit. Working taxpayers with low incomes may qualify for the EITC, a federal tax credit for individuals and families who meet certain income and eligibility guidelines. The EITC reduces the amount of taxes owed and may result in a refund check. The credit, created in 1975, is intended to offset federal taxes and to provide an incentive to work. Many taxpayers who qualify for EITC may also be eligible for free tax preparation and electronic filing by participating tax professionals and volunteers.

Do You Qualify for EITC?

To qualify, a taxpayer must work and have earned income. Earned income includes taxable wages, salaries and tips; net earnings from self-employment; and gross income received as a statutory employee.

In addition, you must have a Social Security Number for yourself, your spouse (if filing jointly) and your qualifying child. Neither you nor your spouse (if filing jointly) can be the qualifying child of another taxpayer. Generally, you must be a U.S. citizen or resident alien all tax year. You can use the filing status of single, head of household, qualifying widow(er) or married filing jointly. You cannot use the filing status of married filing separately. You cannot have investment income of more than \$2,600. You also cannot file Form 2555 or Form 2555-EZ, relating to foreign earned income.

If you do not have a qualifying child, you must meet three additional tests. You must be at least age 25 and less than age 65 at the end of 2003. You cannot be the dependent of another person. You must live in the United States for more than half of the tax year.

To claim the credit using a child, the child must be your "qualifying child" by meeting all relationship, age and residency tests.

- The residency test: The qualifying child must have lived with you for more than half of the tax year.
- The relationship test: The qualifying child can be a son, daughter, adopted child, grandchild, stepchild or foster child. A qualifying child also can be a sister, brother, stepsister and stepbrother or any of their descendants if you care for them as you would your own child.

- The age test: The qualifying child must have been, at the end of 2003, under age 19, a full-time student under age 24 or any age if permanently and totally disabled.

Income/Credit Limits for 2003 Tax Year

Income and family size determine the amount of the EITC. However, taxpayers without children also may qualify for the credit. Each year, the limits on income and credit amount changes with the cost of living. The credit begins to phase out at certain income levels. An Earned Income Credit Table, which shows the credit amounts, is in the instruction booklet for Form 1040 and in Publication 596, Earned Income Credit. The maximum amounts are:

<u>Qualifying child:</u>	<u>Maximum credit</u>
Two or more children.....	\$4,204
One child	\$2,547
No children	\$382

To be eligible for a full or partial credit, a taxpayer must have an adjusted gross income of less than:

- \$33,692 (\$34,692 married filing jointly) and two or more children;
- \$29,666 (\$30,666 MFJ) and one child;
- \$11,230 (\$12,230 MFJ) with no children.

A 'Tie-Breaker' Rule for Qualifying Children

If you and another taxpayer have the same qualifying child, there are special rules for you to consider. You and the other person can decide who will claim the EITC using that qualifying child. If you cannot agree, the tie-breaker rule applies. Under the tie-breaker rule, the child is treated as the qualifying child only of:

- The parent, if one person is the child's parent, or;
- The parent with whom the child lived the longest during the year, if both persons are the parents and they do not file a joint return together, or;
- The parent with the highest adjusted gross income, if the child lived with each parent for the same amount of time during the year and they do not file a joint return together, or;
- The person with the highest adjusted gross income, if neither person is the child's parent.

Only one person can claim the child for EITC purposes. If you and your spouse are the parents and file jointly, these rules do not apply.

Avoid Common Errors

Unintentional math and clerical errors can delay your refund. You are responsible for the accuracy of your tax return. The rules for residency, relationship and age of a

qualifying child can be complicated. Taxpayers should seek assistance if they are unsure of their eligibility.

Some of the most common reasons for disallowance are:

- Claiming a child who is not your qualifying child.
- Married taxpayers who should file as “married filing jointly,” file as single or head of household.
- Income reported inaccurately.
- Missing or incorrect social security numbers.

The IRS continues to work on ways to reduce the error rate. The IRS has asked a small sampling of EITC claimants to provide additional documentation so the agency can verify the information before issuing the EITC portion of refunds. Taxpayers should reply immediately to ensure they receive a timely refund. Taxpayers who need assistance responding or who have questions should call the number on their IRS letters.

A deliberate error can have lasting impact on your eligibility to claim EITC. Beware of scams that claim to increase your EITC refund. Scams that create fictitious qualifying children or inflate income levels to get the maximum EITC could leave you with a penalty. If your EITC claim was reduced or denied after tax year 1996 for any reason other than a mathematical or clerical error, you must file Form 8862, Information To Claim Earned Income Credit After Disallowance, with your next return if you wish to claim the credit.

Advance Earned Income Tax Credit

If you received advance EITC payments in 2003, you must file a tax return to report the payments. Report the amount on line 58 (Form 1040) or line 37 (Form 1040A). Your W-2 form will report your advance EITC amount in box 9. You cannot use a Form 1040-EZ to report advance payments.

The advance EITC payment program allows you to receive part of the credit through your employer. If you would like to participate for 2004, you must work and receive taxable wages. If you qualify for EITC and you have at least one qualifying child for 2004, give your employer a Form W-5, Earned Income Credit Advance Payment Certificate, and your employer will include part of the credit regularly in your pay. Farm workers also are excluded.

How To Claim EITC

Publication 596, Earned Income Credit, explains the process. The publication is available at www.irs.gov or by calling 1-800-829-3676. Publication 596 also is available in Spanish. The Instructions for Form 1040 can help you determine your eligibility. The instructions contain a worksheet and the earned income credit table to help you determine the amount of your credit. If you claim a qualified child, you must attach a Schedule EIC to your Form 1040 or Form 1040A.

You may find tax assistance from many sources. Many taxpayers who qualify for EITC also should visit IRS.gov to see if they qualify for Free File, free tax preparation and electronic filing program provided by software companies. Free File options will be available in mid-January.

Many e-file software providers and tax professionals also provide free services for low-income taxpayers. And, there are 14,000 volunteer sites nationwide where low-income taxpayers may get free tax assistance. Times and locations of these sites are publicized locally. The center closest to you also can be found by calling 1-800-829-1040. And, the IRS has more than 400 Taxpayer Assistance Centers throughout the nation. The IRS also will compute your credit for you. Just write EIC on the appropriate earned income credit line on your tax form and attach Schedule EIC if you have a qualifying child.

The vast majority of EITC claimants allow a third-party to prepare their taxes. If you allow someone to prepare your taxes, make sure you seek out reputable tax professionals. Regardless of who completes your tax form, you are responsible for its accuracy.

EITC recipients should remember they can get faster access to their refund by using direct deposit. If you use IRS e-file and direct deposit, you could have your refund in about two weeks.